

# THE LEONARD LETTER

August 22, 2005

## QUOTE OF THE WEEK

*“Why, it appears that we appointed all of our worst generals to command the armies and we appointed all of our best generals to edit the newspapers. I mean, I found by reading a newspaper that these editor generals saw all of the defects plainly from the start but didn't tell me until it was too late. I'm willing to yield my place to these best generals and I'll do my best for the cause by editing a newspaper.” --Robert E. Lee*

## AROUND THE STATE

### **\*\*\*Lining Up for Illegals' Business\*\*\***

As I write this article, Speaker Fabian Nunez is on FOX news opposing a California border patrol, insisting that the federal government needs to provide the service. Governor Schwarzenegger is considering declaring a state of emergency about illegal immigration. Illegal immigration is the hot issue of California politics right now, and in that context, I was outraged by a Los Angeles Times article last week that described how illegal immigrants can qualify for home loans and how some lenders are targeting this previously untapped market segment. The lenders do not require Social Security Numbers, but use Individual Taxpayer Identification Numbers assigned by the IRS. The IRS created these numbers so that even illegal immigrants could pay federal income taxes, but the IRS shrugs its shoulder about the numbers being used for other purposes: “We don't have control over whatever the taxpayers do with the numbers other than filing a tax return.” Yet if I want a home loan—indeed, even if I simply go the doctor or register for a class—I have to provide my Social Security Number. We citizens are imposed upon by rules and regulations and hoops to jump through, but some California businesses have decided to cater to illegal immigrants and avoid the requirements.

### **\*\*\*Business Ban is Conflict Conundrum \*\*\***

Governor Schwarzenegger—who is not drawing a state salary—was making big bucks from his affiliation with a fitness magazine. Democrats pointed to this as a “conflict of interest” and the Governor has cancelled his consulting contract. At least one Democrat legislator is contemplating legislation banning outside income for the state's elected officials. The insider debate on this has been fascinating. Right now, other statewide elected officials and legislators are free to engage in any business ventures they want, as long as there is no legal conflict with their public duties. In fact, members of the Board of Equalization (yours truly included) are the only constitutional officers specifically prohibited from engaging in “any gainful profession, trade, business or occupation whatsoever for any person, firm or corporation, or be so engaged in their own behalf...”

I have no problem with applying that restriction to the statewide elected officials as well. Rather than applying it to legislators, I would rather make the legislature part-time so that legislators would have to have outside employment. It would make them better legislators. I recall George McGovern's thought after the bed-and-breakfast he ran in New Hampshire went bankrupt. He said that he would have campaigned differently and voted differently as a Senator if he had the business experience of running the b&b prior to serving in office. Over the years I have seen many elected officials who do not know the difference between a business's revenues and its profits.

I wonder to what extent we are willing to go to avoid elected officials having business interests. Would the ban apply to copyrights, patents or intellectual property? Is there a difference between a salary and a partnership interest? Are either of those situations different from owning stock in a corporation?

### **\*\*\*Fuel Shock Yet to Register at the Pump\*\*\***

Contrary to what some might expect, we have yet to detect a serious slow-down at the gas pumps in reaction to soaring oil prices. While second quarter data is still coming in, in the first quarter of this year, taxable gas sales in California were 3.82 billion gallons compared to 3.89 billion gallons in the first quarter of 2004 -- about a 2% decrease. Diesel sales were actually up this year from the first quarter of last year -- 676 million gallons in the first quarter this year compared to about 654 million gallons in the first quarter of 2004 -- about a 3% increase. These hot prices, however, benefit the state to the detriment of taxpayers who continue to be double-taxed on every purchase of gas. If the state had a conscience, it would lower the gas tax so that the rise in gas prices is revenue-neutral instead of brazen profiteering.

## **ISSUE FOCUS**

### **\*\*\*Constitution Making\*\*\***

Today's news is about Iraq's potential constitution. Some are fretting that it has been months, with additional days granted and the new constitution is not done yet! I had the same thought that I saw in last Monday's MULLINGS about constitution making. It took the new United States of America more than a decade to craft a useable constitution-- from the Declaration of Independence in 1776 until the final adoption of the Constitution in 1789. That time frame does not even include the instantaneous necessity of fixing it with not one, not two, but TEN amendments which did not get approved until 1791.

### **\*\*\*Leonard Law\*\*\***

Imagine you were running a college program to train new teachers. You have to write a list of "professional dispositions" that students are "expected to demonstrate" during their classes and field work. What might you put on that list? What professional qualities might you want future teachers to develop? I jotted down a few: excellence in

academics, good communication, ability to inspire students, effective classroom discipline, flexibility in teaching skills depending on students' learning styles, ages, abilities, etc. Then I read the actual Professional Dispositions code for the College of Education at San Jose State University. It says that students should be reflective, responsible, committed to professionalism, and committed to fairmindedness and equity. That seemed a little odd at first glance and looked even more suspicious when I read the "indicators" of these dispositions. For example, one demonstrates a commitment to fairmindedness and equity in these ways: "treats others with respect, courtesy and dignity; is intolerant of all forms of harassment, discrimination, and exploitation; recognizes the need for differences to ensure equal treatment of all."

The problem with these pleasant, harmonizing words is that they themselves are used to harass. This Professional Disposition code is simply a new form of the "speech codes" that were used to punish people, generally conservatives, on college campuses in the 1990s. I recently received a complaint from a student at the school who was graded down for expressing an unorthodox view. Implicit in such speech codes or professional dispositions is that students must express the tolerant views of the administration, not their own thoughts, freely arrived at, no matter how well supported by research or citations. I authored a law (S.B. 1115 of 1991) to prevent students from being punished solely for exercising their First Amendment right to free speech, but clearly there still is a gap between the intent of that law and how students who express unpopular views are treated on campus.

## **MISCELLANY**

### **\*\*\*A Good Read\*\*\***

Wharton professor Jeremy Siegel offers a lot of food for thought in his latest book, "The Future for Investors." Siegel did a tremendous amount of research on the companies of the S&P 500. You can look up what \$1,000 invested in any of the original companies would have yielded over time, and the results are surprising. He also offers research comparing U.S. securities to global markets, which shows how being a contrarian investor can pay off big. But what I most enjoyed about the book was Siegel's insights into history and how unique a time we are living in now. He offers numerous examples of how technological innovations have been lost and rediscovered time and time again due to inadequate means of communicating knowledge. For example, during the Middle Ages, Europeans had worse lighting technology than the Romans did 1,000 years previously. Siegel believes the Internet will not only prevent us from losing knowledge, but it will also bring about innovation at a faster pace than ever. He points to a recent discovery by a man in China of a formula for determining if any number is a prime number. This is a huge mathematical breakthrough. The man's only tool was the search engine Google, which allowed him to read all the research that had been done previously on this conundrum.

In the next part of the book, Siegel explores the Baby Boomer retirement and what it means for investors. His hypothesis is that the impending retirement of the Baby Boom generation could bring about a severe depression in stock prices and thus the delayed retirement of our children's generation until they are well into their 70s. The problem that he sees is too many sellers of stocks and other securities, and not enough buyers when Baby Boomers cash out in order to live in retirement. Siegel believes the solution will be a new relationship between our country and the developing world in which the new investor class from these fast growing countries buys our assets in return for the goods and services we need for retirement. Sound scary? Siegel thinks not because he believes that in a global economy, where the assets are held will be insignificant.

## **BOE AND LEGISLATIVE DATES**

**August 31-September 1, 2005** --- BoE meets in Sacramento.

**September 5, 2005** --- Labor Day.

**September 9, 2005** --- Last day for any bill to pass the legislature; interim recess beings upon adjournment.

**September 20-21, 2005** --- BoE meets in Culver City.

**September 21, 2005** --- Taxpayers' Bill of Rights Hearing in Culver City.

**October 25, 2005** --- Taxpayers' Bill of Rights Hearing in Sacramento.

## **NOTABLE DATES/ HISTORY**

**August 22, 1846** --- The U.S. annexed New Mexico.

**August 23, 1869** --- The first carload of freight (boots & shoes) arrived in San Francisco from Boston.

**August 23, 1882** --- At the Texas Republican Party convention, more than half of delegates were African-Americans.

**August 24, 1814** --- The British sacked Washington, D.C. and burned the White House.

**August 25, 1916** --- The National Park Service was established.

**August 25, 1950** --- President Truman ordered the army to seize control of the railroads to avert a strike.

**August 26, 55 BC** --- Roman forces under Julius Caesar invaded Britain.

**August 27, 1908** --- Lyndon B Johnson, 36th President of the U.S., was born.

**August 27, 1945** --- U.S. troops landed in Japan after the Japanese surrendered in WWII. My father, W.E. Leonard, a young lieutenant with a wife back in California, landed in Japan this day thanking God that he was part of an army of occupation and not an army of invasion.

**August 27, 1984** --- President Reagan announced the Teacher in Space project.

**August 28, 1963** --- Martin Luther King delivered his “I Have a Dream” speech in front of the Lincoln Memorial.

## **GENERAL TAX INFORMATION**

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115  
TDD service for the hearing impaired  
TDD phones: 800-735-2929  
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate’s office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

## **HOW TO CONTACT ME**

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